quality and growth

LEGACY HOTELS 2000 ANNUAL REPORT

LEGACY HOTELS

REAL ESTATE INVESTMENT TRUST

corporate profile

Legacy Hotels Real Estate Investment Trust was created in 1997 with the purchase of 11 Canadian city centre hotels. Today, we own a distinguished collection of 21 hotels and resorts with over 9,500 rooms across the country, including The Fairmont Empress and Fairmont Le Château Frontenac acquired in February 2001.

Two leading hotel managers operate the hotel portfolio: Fairmont Hotels & Resorts, North America's largest luxury hotel management company; and Delta Hotels, Canada's largest first class hotel management company.

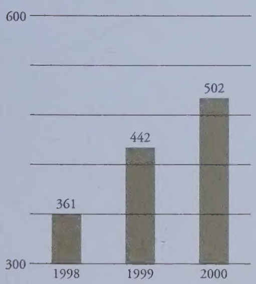
Legacy's objective is to increase unitholder value over the long term. To accomplish this, we are focused on achieving superior operating performance through sound management decisions, enhancement of our existing hotels, acquisition opportunities comparable to our existing portfolio and a consistent high standard of service.

contents

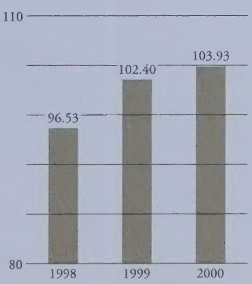
Another year of strong operating performance for Legacy

- Gross operating revenues **improved by 13.5%** to $501.7 million, funds from operations[2] **increased by 12.9%** and distributable income was **up 12.6%**.
- Cash distributions of $0.98 per unit were **10.1% higher** than 1999.
- Overall average daily rate **increased by 6.4%**.
- The number of rooms in the portfolio **increased by 9.7%** in 2000 through the acquisition of two Winnipeg hotels.
- An agreement was entered into to **purchase two Canadian landmark resorts**.

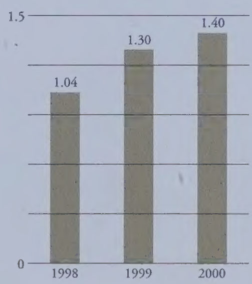
Gross Operating Revenues ($ millions)



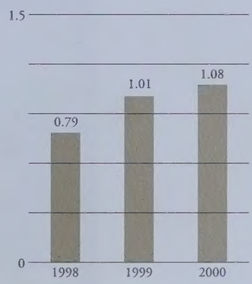
RevPAR[1] ($)



FFO[2] per Unit ($)

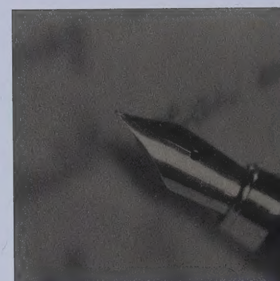


Distributable Income per Unit ($)



1 Revenue per available room statistics are for the portfolio of properties as at December 31, 2000 as if owned for the full years presented.
2 Funds from operations equals net income, adding back amortization and the provision for year 2000 readiness costs (1998).

growth



building Since its first full year of operations in 1998, Legacy has grown its portfolio of hotels by more than 90%, improved net income by 40% and increased its quarterly distribution by 35%.

"In 2000, we strengthened the foundation for long-term growth through strategic acquisitions, numerous repositioning initiatives and adoption of the growing luxury Fairmont brand for ten of our 21 hotels."

— *William R. Fatt*

Legacy Hotels Real Estate Investment Trust ("Legacy") is Canada's premier real estate investment trust, owning a unique portfolio of 21 hotels and resorts across Canada. Fairmont Hotels & Resorts ("Fairmont"), North America's largest luxury hotel management company, operates our ten luxury properties and Delta Hotels ("Delta"), Canada's largest first class hotel operator, manages our 11 first class hotels.

Financial Performance

Legacy reported gross operating revenues of $501.7 million in 2000, representing an increase of 13.5% over the previous year. Operating income from hotel operations of $121.7 million was up 13.9% from the prior year and net income for the year rose 7.2% to $62.9 million. Distributable income of $67.3 million increased by 12.6% and unitholder distributions of $0.98 per unit represented a 10.1% year over year increase.

Portfolio Growth

Increasing the value of our portfolio through acquisitions, profit improving initiatives and repositioning projects are ongoing priorities. In June, we purchased the 402-room Delta Winnipeg, previously the Crowne Plaza, and in September, we acquired the 350-room Fairmont Winnipeg, formerly The Lombard. Both hotels have begun major renovation programs and Fairmont's Entrée Gold product, *a hotel within a hotel,* will be added to The Fairmont Winnipeg in 2001. These two acquisitions increased the number of rooms in the portfolio by 9.7%. We paid $58.5 million, plus acquisition costs and working capital, for the two hotels, estimated to be approximately 70% of replacement cost. We used our acquisition facility to fund the majority of the total purchase costs and issued approximately two million units for the balance.

In February 2001, Legacy took a significant step by purchasing its first resorts, Fairmont Le Château Frontenac and The Fairmont Empress, from Canadian Pacific Hotels & Resorts Inc. ("CPH&R"). These two properties are resorts because they are located in the heart of world-class

destinations and cater to international travellers. The Fairmont Empress, built in 1908, is Victoria, British Columbia's premier hotel and is well known for its afternoon tea. Fairmont Le Château Frontenac, built in 1893 in Quebec City, is reputed to be the most photographed hotel in the world and is recognized as a Quebec landmark. *Condé Nast Traveler* recently honoured this hotel by ranking it second in the Americas for its location in the magazine's Readers' Choice Poll 2001 Gold List, the largest private poll of consumer attitudes in the United States. The purchase of these two Canadian resorts increases our room base by an additional 12.7%.

These two hotels are owned by a special purpose subsidiary of Legacy, all of the common shares of which are owned by Legacy. The subsidiary issued 14.7 million exchangeable shares to CPH&R at a price of $8.60 for approximately 41% of the total $305 million purchase price, which is significantly below the estimated replacement cost of the two hotels. After a minimum holding period of five years, the shares are exchangeable into Legacy units on a one-for-one basis and are intended to track existing Legacy units on an after-tax basis. The balance of the purchase was paid in cash, funded from the net proceeds of secured, non-recourse loans to the subsidiary from third party lenders. The exchangeable shares increase CPH&R's current ownership of Legacy to approximately 46% on a fully diluted basis. Over time, CPH&R intends to reduce its interest in Legacy to its original investment of 34% through a secondary offering, subject to favourable market conditions.

The acquisition of these two hotels provides Legacy with several benefits, including expansion into the resort sector, a more diversified revenue base, high quality assets comparable to Legacy's current portfolio and further geographic diversification through the addition of two new major markets. Both hotels benefit from Fairmont's affluent international customer base, attracting a significant portion of their business from international tourism. Luxury resorts tend to have higher room rates than their business hotel counterparts and we expect that the purchase of these two resorts will increase Legacy's overall revenue per available room ("RevPAR"). These two hotels will also increase seasonal fluctuations in earnings.

As well as acquisition growth, we are investing significant capital in selected profit improving projects. In addition to the Winnipeg renovation projects, several major repositioning initiatives began in 2000. In Toronto, The Fairmont Royal York's upgrade of the lobby and renovation of the adjacent restaurants will be completed by March 2001, followed by an upgrade of its meeting rooms by the fall of 2001. In Montreal, Fairmont The Queen Elizabeth will complete the first phase of its extensive refurbishment of guestrooms and corridors by April 2001. A full service spa at The Fairmont Empress will open in the fourth quarter of 2001 and Fairmont Le Château Frontenac has recently expanded its Entrée Gold floor and is adding more guestrooms to be operational by April 2001.

Hotel Industry

Overall, the Canadian hotel industry did well in 2000. There was little new hotel supply in the full service sector, with the exception of the Vancouver and Calgary markets. Furthermore, exchange rates continued to encourage foreign travellers, particularly Americans, and Canadians alike to travel in Canada.

The Canadian hotel industry was also affected by a number of factors, mostly non-recurring, which affected occupancy levels and overall results at Canadian hotels. In January, millennium computer system concerns resulted in reduced corporate and leisure travel throughout North America. During the summer, the threat of a pending strike at Air Canada affected travel and rising fuel costs had an impact on cross-border traffic into cities such as Toronto and Vancouver. In August, labour strikes at a number of Vancouver hotels created negative publicity for the city during its busiest season. It is important to note that neither of Legacy's two Vancouver properties were involved in this strike.

Notwithstanding the concerns about an economic slowdown in North America, we remain cautiously optimistic about the prospects of the Canadian hotel industry. Unlike the United States, where there is significant new hotel construction in many major markets, Canada will only see more new hotel supply in the luxury and first class segments in Vancouver in the near term. Finally, average daily rates in Canada still offer significant growth potential, as rates in the U.S. and in other countries remain considerably higher than those in Canada.

High Quality Management

Our portfolio benefits from the management expertise of CPH&R's two leading management companies. Fairmont is North America's largest luxury hotel management company operating 37 luxury hotels in Canada, the U.S., Mexico, Bermuda and the Caribbean. Delta is Canada's largest first class hotel management company managing and franchising 39 hotels, primarily in Canada.

The Strategic Alliance Agreement between CPH&R and Legacy provides us with the right of first offer to acquire any of CPH&R's Canadian properties. With CPH&R being the largest owner of resorts in Canada, there is the potential to acquire additional properties in this unique collection of premier assets. To further strengthen our relationship, CPH&R has a substantial ownership interest in Legacy, aligning both parties' interests and demonstrating CPH&R's long-term commitment to the overall success of Legacy's portfolio.

After a year of operating its luxury hotels outside of Canada under the Fairmont brand, CPH&R announced in November 2000 that it was extending the Fairmont brand to the Fairmont managed hotels in Canada. The cost of the rebranding was borne by Fairmont. The individual hotel names of historic significance have been retained, such as The Fairmont Royal York and Fairmont Château Laurier. By placing all of its hotels under one brand, Fairmont can enhance revenue opportunities through a consistent brand message and increased international recognition and ultimately benefit Legacy through growth of the Fairmont brand. Legacy is a direct beneficiary of this branding strategy as the Fairmont brand will attract U.S. travellers willing to pay increased room rates at Legacy's luxury properties.

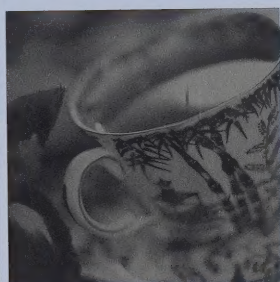
Fairmont achieved international recognition when 19 of its 37 hotels were included in *Condé Nast Traveler's* Readers' Choice Poll 2001 Gold List. Six of Legacy's ten Fairmont hotels were honoured in the Canadian category.

Although separate management companies, Fairmont and Delta share a number of consolidated services including design and construction, finance and accounting, legal and corporate services, technology and purchasing, allowing cost savings to be passed on to hotel owners. In addition to these shared services, Fairmont has partnered with several other leading hotel operators to form the largest internet-enabled business-to-business hospitality procurement company in the world, Avendra L.L.C. Avendra will provide a significant opportunity for both Fairmont and Delta to leverage their market position in Canada, offering both companies better economies of scale across the supply chain.

A major focus for CPH&R is e-commerce. CPH&R is making significant investments in technology to improve efficiencies relating to on-line reservations and guest data processing. A new Fairmont website and guest data-warehousing will allow Fairmont to consolidate all guest data and consequently, provide enhanced personalized guest experiences, both on-line and during their stay. This type of personalized service is expected to benefit Legacy through increased room rates and customer loyalty.

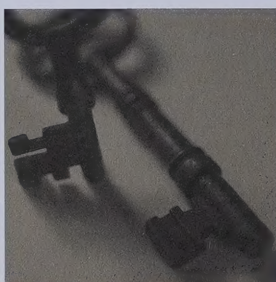
Ultimately, the hotel business is about employees providing exceptional service to guests. This is another area where our managers make a difference. Both Fairmont and Delta are dedicated to employee selection, training, development and recognition. Each company has established programs that support these human resource initiatives in order to attract the best talent and create employee commitment and loyalty. In September, the National Quality Institute awarded Delta with the Canada Awards for Excellence Trophy 2000. Delta is the first hotel company to receive Canada's top recognition for organizational excellence. In January 2001, *Report on Business,* a monthly

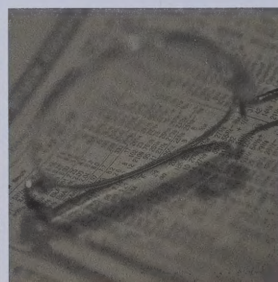
resorts



luxury THE PURCHASE OF THE FAIRMONT EMPRESS AND FAIRMONT LE CHÂTEAU FRONTENAC PROVIDES US WITH EXPANSION INTO THE RESORT SECTOR, A MORE DIVERSIFIED REVENUE BASE, HIGH QUALITY ASSETS COMPARABLE TO OUR CURRENT PORTFOLIO AND FURTHER GEOGRAPHIC DIVERSIFICATION.

quality





service Fairmont Hotels & Resorts, North America's largest luxury hotel management company, and Delta Hotels, Canada's leading first class management company, each provide high quality service to guests at all of Legacy's hotels.

magazine published by the respected national daily newspaper, *The Globe and Mail*, honoured Delta as one of the "35 Best Companies to Work For" in Canada.

Solid Financial Position

In 2000, we took steps to maintain the strength of our balance sheet and improve our financial position. In August, Legacy raised $52.9 million through a trust unit offering. Proceeds of the offering were used to substantially repay existing bank indebtedness under our acquisition facility. Legacy has available a $30 million operating line and a $100 million acquisition facility, both of which were undrawn as at December 31, 2000.

We increased our cash distribution to unitholders this year by 10.1%, a 24.8% increase since the first full year of operations, completed several strategic acquisitions and initiated several major profit improving projects.

Outlook

As the largest owner of luxury and first class hotels in Canada, managed by two leading hotel management companies, Legacy is well positioned to grow through the purchase of additional hotels and resorts in Canada. We will continue to investigate additional opportunities in the city centre and resort segments of the market place. We believe the resort segment has significant growth prospects. The acquisition of additional resorts will provide Legacy with an improved balance in its portfolio and enable it to expand in the luxury and first class sectors of the hotel market. Our strategic relationship with CPH&R, Canada's largest owner of resort properties, may provide us with future resort acquisition prospects that will further enhance the quality of our current portfolio. We will also continue investing in our existing hotels in order to enhance the profitability of our portfolio.

With the relatively low level of the Canadian dollar and hotel rates still considerably lower than those in other countries, growth in the full service hotel sector is expected to continue. Legacy's high quality assets, experienced management and future growth potential should provide long-term financial stability and operating performance.

William R. Fatt
Vice Chairman and
Chief Executive Officer

portfolio summary

Property	Map Reference	Year Opened	Total Guest Rooms*	Suites	Meeting Rooms	Total Meeting Space (ft²)
Fairmont Hotels & Resorts						
The Fairmont Empress, Victoria, BC	1	1908	472	44	6	22,000
The Fairmont Hotel Vancouver, Vancouver, BC	2	1939	556	34	16	40,000
The Fairmont Waterfront, Vancouver, BC	3	1991	489	29	14	24,000
The Fairmont Palliser, Calgary, AB	4	1914	405	16	14	19,400
The Fairmont Hotel Macdonald, Edmonton, AB	6	1915	198	16	7	10,500
The Fairmont Winnipeg, Winnipeg, MB	8	1970	350	2	14	19,500
The Fairmont Royal York, Toronto, ON	12	1929	1,365	108	43	66,700
Fairmont Château Laurier, Ottawa, ON	13	1912	429	38	16	31,700
Fairmont The Queen Elizabeth, Montreal, QC	16	1958	1,061	100	31	47,200
Fairmont Le Château Frontenac, Quebec, QC	17	1893	607	24	14	10,000
Delta Hotels						
Delta Calgary Airport, Calgary, AB	5	1979	296	12	15	13,000
Delta Bessborough, Saskatoon, SK	7	1935	225	10	13	17,100
Delta Winnipeg, Winnipeg, MB	9	1973	402	9	16	18,000
Delta Toronto East, Toronto, ON	10	1982	368	7	27	20,700
Four Points Hotel Toronto Airport, Toronto, ON	11	1976	296	6	25	14,300
Delta Ottawa Hotel and Suites, Ottawa, ON	14	1970	328	62	13	11,600
Delta Centre-Ville, Montreal, QC	15	1977	711	24	24	30,000
Delta Beauséjour, Moncton, NB	18	1972	310	11	14	15,700
Delta Halifax, Halifax, NS	19	1974	300	13	12	9,200
Delta Barrington, Halifax, NS	20	1980	200	1	7	6,000
Delta Prince Edward, Charlottetown, PEI	21	1984	211	27	13	20,500

* *including suites*

portfolio performance review

Property	Occupancy (%) 2000	1999	Point change	Average Daily Rate ($) 2000	1999	% change	RevPAR ($) 2000	1999	% change
Fairmont Hotels & Resorts									
The Fairmont Hotel Vancouver	69.01	75.81	-6.8	$ 192.13	184.76	4.0	$ 132.58	140.06	-5.3
The Fairmont Waterfront	72.52	74.82	-2.3	200.44	192.92	3.9	145.36	144.34	0.7
The Fairmont Palliser	63.19	69.67	-6.5	165.96	157.01	5.7	104.88	109.39	-4.1
The Fairmont Hotel Macdonald	64.96	71.54	-6.6	146.52	134.61	8.8	95.19	96.30	-1.2
The Fairmont Winnipeg	63.98	71.58	-7.6	111.59	110.57	0.9	71.40	79.15	-9.8
The Fairmont Royal York	73.35	77.68	-4.3	182.96	165.51	10.5	134.19	128.56	4.4
Fairmont Château Laurier	78.32	80.12	-1.8	177.97	161.46	10.2	139.39	129.36	7.8
Fairmont The Queen Elizabeth	67.98	69.51	-1.5	151.20	142.60	6.0	102.78	99.12	3.7
All Fairmont Hotels	**70.16**	74.27	-4.1	**$ 171.24**	159.87	7.1	**$ 120.15**	118.74	1.2
Delta Hotels									
Delta Calgary Airport	64.87	60.40	4.5	$ 123.01	127.52	-3.5	$ 79.80	77.03	3.6
Delta Bessborough	69.85	62.85	7.0	94.65	86.27	9.7	66.11	54.22	21.9
Delta Winnipeg	66.75	82.51	-15.8	94.28	93.25	1.1	62.93	76.94	-18.2
Delta Toronto East	66.27	69.32	-3.1	146.10	136.08	7.4	96.82	94.33	2.6
Four Points Hotel Toronto Airport	83.02	79.92	3.1	110.63	105.06	5.3	91.84	83.96	9.4
Delta Ottawa Hotel and Suites	79.98	83.35	-3.4	128.76	118.17	9.0	102.99	98.50	4.6
Delta Centre-Ville	65.49	68.14	-2.7	136.24	125.25	8.8	89.22	85.35	4.5
Delta Beauséjour	69.69	70.04	-0.4	96.93	97.52	-0.6	67.56	68.31	-1.1
Delta Halifax	70.87	67.65	3.2	113.33	109.20	3.8	80.31	73.87	8.7
Delta Barrington	67.47	77.95	-10.5	123.02	103.99	18.3	83.00	81.07	2.4
Delta Prince Edward	53.25	56.39	-3.1	133.96	127.13	5.4	71.33	71.69	-0.5
All Delta Hotels	**68.85**	71.21	-2.4	**$ 119.65**	112.75	6.1	**$ 82.37**	80.29	2.6
Total Hotel Portfolio	**69.60%**	72.97%	-3.4	**$ 149.33**	$ 140.33	6.4	**$ 103.93**	$ 102.40	1.5
Acquisitions post Dec. 31, 2000									
The Fairmont Empress	74.72	76.97	-2.3	194.70	179.24	8.6	145.48	137.97	5.4
Fairmont Le Château Frontenac	74.74	78.75	-4.0	218.05	192.83	13.1	162.96	151.86	7.3

financial highlights

For the Year Ended December 31	2000	1999	1998
Occupancy[1]	**69.6%**	73.0%	74.1%
Average daily rate[1]	**$ 149.33**	$ 140.33	$ 130.20
RevPAR[1]	**$ 103.93**	$ 102.40	$ 96.53
In $ Millions (except per unit amount)			
Operating revenues	**501.7**	441.9	361.4
Operating expenses	**327.2**	289.5	242.9
Hotel EBITDA[2]	**121.7**	106.8	83.6
Net income	**62.9**	58.7	45.0
FFO[3]	**87.3**	77.3	61.4
Distributable income	**67.3**	59.8	47.1
Amount distributed	**62.1**	52.7	46.5
Distributable income per unit	**1.084**	1.009	0.793

1 Occupancy, average daily rate and revenue per available room figures are based on the hotel portfolio composition as at December 31, 2000, as if owned for the full years represented.

2 Earnings before other income, other expenses, interest and taxes.

3 Funds from operations equals net income, adding back amortization and the provision for year 2000 readiness costs (1998).

financial review

In November 1997, Legacy Hotels Real Estate Investment Trust ("Legacy") commenced operations with an initial portfolio of 11 hotels. Legacy marked its third full year of operation in 2000 by achieving yet another year of record operating performance. Revenue topped the $500 million level for the first time while distributable income rose 12.6% to $67.3 million, or $1.084 per unit.

Legacy continues to grow its portfolio through strategic acquisitions. On February 1, 2001, Legacy acquired The Fairmont Empress and Fairmont Le Château Frontenac from Canadian Pacific Hotels & Resorts Inc. ("CPH&R"), for approximately $305.0 million, plus acquisition expenses. Legacy settled $178.6 million with a note, subsequently repaid from the net proceeds of secured, non-recourse loans, and issued $126.4 million in exchangeable shares of a special purpose subsidiary corporation as consideration for these properties. The exchangeable shares will be entitled to a per share dividend equal to the ordinary unit distribution, less taxes payable. Dividends on the exchangeable shares may only be declared if a distribution has been declared on the Legacy units. Each exchangeable share is retractable at the fair market value of a Legacy unit after a minimum holding period of five years. In years six to ten, CPH&R has agreed that not more than two-thirds of the shares can be retracted if certain debt service coverage thresholds are not met by The Fairmont Empress and Fairmont Le Château Frontenac. The exchangeable shares are tied to voting certificates issued by Legacy that are entitled to one vote per voting certificate at meetings of Unitholders.

During 2000, Legacy purchased two hotels in Winnipeg, The Fairmont Winnipeg, formerly The Lombard, and the Delta Winnipeg, formerly the Crowne Plaza. The Delta Winnipeg was purchased for $29.5 million in cash, plus working capital and acquisition expenses. The Fairmont Winnipeg was purchased for a total of $29.0 million, plus working capital and acquisition expenses. The vendor received a combination of $11.6 million in cash, and 1,986,301 Legacy units valued at $17.4 million.

In 1999, the Legacy portfolio experienced similar growth, with the acquisitions of the Delta Toronto East, the Four Points Hotel Toronto Airport and the leasehold interest in the Delta Barrington in Halifax.

Legacy now has a portfolio of 21 luxury and first class hotels and resorts across Canada, consisting of over 9,500 rooms. The portfolio contains ownership interests in virtually every major city across Canada. Future growth by Legacy will be assisted through the Strategic Alliance Agreement with CPH&R. Under this agreement, CPH&R must advise Legacy of any investment opportunity in a business or resort hotel and provide Legacy with an opportunity to participate in its acquisition. Additionally, Legacy is provided with a right of first offer in connection with any business or resort hotel that CPH&R is proposing to sell.

As at December 31, 2000, Fairmont Hotels & Resorts ("Fairmont") manages Legacy's eight luxury hotel properties that constitute approximately 68% of Legacy's revenues. Delta Hotels ("Delta") manages Legacy's 11 first class hotels.

Fairmont manages a total of 37 luxury city centre and resort hotels such as The Fairmont San Francisco, The Fairmont Banff Springs, and The Plaza in New York City. Late in 2000, the use of the Fairmont brand was extended to all of Legacy's luxury properties in Canada, which were already being managed by Fairmont under the Canadian Pacific Hotels brand. A closer association of these properties with the Fairmont branded properties in the U.S., Mexico, Bermuda and the Caribbean is expected to enhance revenue opportunities through a consistent brand message and increased international recognition.

Delta is a dominant Canadian hotel management company focusing on the first class segment of the hotel market. With the addition of four management contracts in January 2001, it now manages and franchises 38 first class urban and resort properties in Canada and one in the United States.

Together, the Fairmont and Delta brands provide Legacy with a platform for potential earnings growth and continued expansion through property acquisition in Canada and possibly, internationally.

On August 10, 2000, Legacy completed an offering of 6.4 million units at $8.60 per unit. Proceeds, net of issuance costs, totalled $52.9 million and were used towards the repayment of amounts owing under its acquisition credit facility.

Late in 1999, Legacy announced it had filed a normal course issuer bid to commence purchases of its units in the open market through the facilities of The Toronto Stock Exchange. Throughout 2000 Legacy repurchased 133,900 units, or 0.2% of its public float, at a net cost of $1.3 million.

Review of Operations

Legacy had another good year in 2000. Net income increased to $62.9 million, or $1.013 per unit, compared with 1999 net income of $58.7 million, or $0.991 per unit. The year-over-year increase in net income was 7.2% while the compound annual growth rate of net income over the past two years was 18.3%. Continued growth of the portfolio through acquisitions and a 1.5% increase in RevPAR, allowed for record distributions to Unitholders in 2000. Legacy's current quarterly distribution is $0.25 per unit.

Operating income from hotel operations increased $14.8 million, or 13.9%, in 2000 to $121.7 million. This compares with $106.8 million in 1999 and $83.6 million in 1998. Approximately $6.9 million of the increase resulted from the inclusion of a full year's results of the 1999 acquisitions, $2.0 million was attributable to acquisitions in 2000 and the remaining $5.9 million arose from growth at the portfolio's other hotels, primarily The Fairmont Royal York, Fairmont The Queen Elizabeth and Delta Centre-Ville. The Vancouver market continues to experience weakness resulting from excess capacity and weak demand. These factors have continued to affect results at The Fairmont Hotel Vancouver; however, The Fairmont Waterfront showed a modest 1.9% increase in EBITDA in 2000. The Calgary market has also experienced new hotel supply in 1999 and 2000, which has impacted hotel performance.

Revenues

Operating revenues in 2000 totalled $501.7 million, an increase of $59.8 million or 13.5% over 1999. The strong revenue growth resulted from the acquisitions of The Fairmont Winnipeg and Delta Winnipeg in 2000, which increased revenues by $8.7 million, as well as the full year effect of the 1999 acquisitions of the Delta Toronto East, the Four Points Hotel Toronto Airport and the leasehold interest in the Delta Barrington in Halifax, which increased revenues by $31.4 million. In addition, strong revenue growth at The Fairmont Royal York, Fairmont Château Laurier, Fairmont The Queen Elizabeth and Delta Centre-Ville contributed an additional $16.6 million in operating revenue over 1999. In 2000, Legacy achieved average daily rate ("ADR") growth in all of its markets. ADR increased by 6.4% and notwithstanding a decline in occupancy rates of 3.4 points, RevPAR grew 1.5% in 2000.

Operating Expenses and Other

Legacy's direct operating expenses include cost of labour, room expenses, food and beverage expenses, administration, advertising, property operation and maintenance expenses, and utility expenses. Direct operating expenses in 2000 increased $37.7 million, or 13.0%, to $327.2 million, primarily from the acquisition of new hotels. Gross operating margins improved to 34.8% in 2000 from 34.5% in 1999. This improvement is a result of effective cost containment, improved labour productivity and the increase in RevPAR, which increases margins to the extent that costs are fixed.

Hotel management fees are comprised of base and incentive fees. In 2000, hotel management fees represented approximately 4.5% of revenues versus 4.1% in 1999 as a result of greater incentive fees generated by improved operating performance at select hotels.

Property taxes, rent and insurance expense grew 9.7%, in line with the growth in the hotel base.

Other income consists of fees earned by Legacy through an asset management agreement entered into with the vendor of The Fairmont Winnipeg on June 30, 2000. Under this agreement, Legacy was entitled to a fee based on the net income from The Fairmont Winnipeg less interest on the cash portion of the purchase price and the amount of any distributions on units for the period that the asset management agreement was in effect. By the time the acquisition closed out of escrow in November 2000, Legacy had earned $1.1 million in asset management fees under this agreement.

Amortization expense increased $5.8 million to $24.4 million over 1999. This increase stems from acquisitions, capital improvement programs and normal increases from the application of the sinking fund method.

Interest expense increased $2.4 million in 2000 to $29.4 million as a result of the additional financing required to purchase The Fairmont Winnipeg and the Delta Winnipeg.

Liquidity and Capital Resources

Legacy has credit facilities totalling $130.0 million for operating and capital expenditures comprised of a $30.0 million operating line and a $100.0 million acquisition line. These bank facilities are committed to February 2002 and February 2003, respectively. In addition, Legacy obtained a $125.0 term loan in November 2000 as an interim facility to long-term debt. Funds drawn under this term loan are repayable in November 2001.

Operating Risks

Legacy is subject to the following risks:

Real Property Ownership and Growth Opportunities

Significant fixed expenditures, including property taxes, maintenance costs, debt service costs and land and building lease costs are incurred regardless of income produced. Legacy may also be subject to risks associated with debt refinancing, as new terms are subject to market conditions and may not be as favourable as existing terms.

The lack of supply of luxury and first class hotels available for sale at a favourable price in the right market may also limit growth of the portfolio.

Under various federal and provincial environmental laws, owners of property may be liable for the costs of removal or remediation of toxic substances on owned property. Legacy continues to monitor and address environmental matters and has a comprehensive management program in place to ensure environmental risks are minimized.

Hotel Industry

Hotel ownership is subject to risks inherent in the industry. The industry is subject to changes in general and local economic conditions, seasonal variations in cash flow, overbuilding of new hotels, varying demand levels for rooms and related services, changes in the availability and cost of labour, currency fluctuations, changes in travel patterns and trends and technology and service requirements. The industry is highly competitive, with hotels competing not only in their local markets against similar class of hotels, but competing nationally and internationally against limited and full service hotels.

Labour Relations

Currently, Legacy has unionized employees at 15 of its hotels, representing approximately 4,700 of Legacy's 8,200 employees. These properties are covered by 18 collective agreements with 11 different unions. In 2000, six contracts were successfully settled at market rates. A contract at the Delta Beauséjour expired on December 31, 2000 and will be renegotiated in early 2001. Contracts at Fairmont Château Laurier, Fairmont Le Château Frontenac, the Delta Winnipeg, the Delta Toronto East and the Four Points Hotel Toronto Airport expire in 2001. Although Legacy cannot predict the outcome of contract negotiations, it continues to maintain favourable partnerships with its employees in conjunction with employee programs through Fairmont and Delta.

[illegible]

Legacy will continue to strive to meet its objectives of providing stable and growing cash distributions in 2001 through effective management of the portfolio as well as strategic acquisitions. Legacy expects continued growth in EBITDA and distributable income. It is anticipated that the addition of The Fairmont Empress and Fairmont Le Château Frontenac in February 2001 will outweigh any continued weakness in the Vancouver market. The lower Canadian dollar should continue to attract more American travellers and deter Canadians from travelling outside of Canada. However, it appears that growth in the North American economy is slowing considerably. The impact on Legacy and the severity of the slowdown are difficult to determine at this time but they could adversely affect operating conditions.

Legacy will continue to maintain the quality of the portfolio through its capital replacement reserve policy. In addition, funds will be expended in 2001 to enhance the existing portfolio and to complete the repositioning of recently acquired assets. Legacy will actively pursue growth from its existing asset base and review strategic acquisition opportunities of quality assets in primary, secondary and resort markets within Canada. Legacy's relationship with Fairmont and Delta and the Strategic Alliance Agreement with CPH&R will aid in the facilitation of its growth.

Based on the current portfolio, approximately 60% of the estimated 2001 distribution of $1.00 per unit will be taxable, with the balance being a return of capital for those units held as capital property. Additional investment activities may cause this estimate to vary.

In September 1999, Legacy borrowed $45.0 million on a short-term basis under its acquisition line in connection with the purchase of Delta Toronto East and Four Points Hotel Toronto Airport. In June 2000, a further $28.0 million was drawn under the acquisition facility to fund the purchase of the Delta Winnipeg. These advances were partially repaid from the $52.9 million in net proceeds realized on the 6.4 million unit issuance in August 2000. In November 2000, the term loan was used to refinance the $75.0 million Series 1A debentures that matured on November 15, 2000 and the $20.0 million outstanding under the acquisition facility. In December 2000, another $14.6 million was drawn under the term loan to fund capital expenditures and replenish cash used for The Fairmont Winnipeg acquisition. At December 31, 2000, all amounts were available under the operating and acquisition facilities and approximately $15.0 million was available under the term loan.

Short-term debt net of cash and short-term investments grew to $115.6 million at December 31, 2000, compared to $108.9 million at December 31, 1999. Acquisitions and planned capital expenditures in excess of the capital replacement reserve continue to be the primary factors behind the need for increased financing. The level of short-term debt may fluctuate throughout 2001 consistent with Legacy's short-term needs and the cyclical nature of hotel revenues. Since total debt, including the term loan, represents only 38.7% of Legacy's total assets, it is expected that current debt will be readily refinanced with new long-term debt. Given Legacy's strong performance in 2000, its positive outlook for 2001 and sufficient availability under its bank facilities, Legacy expects to be able to meet all of its financial obligations.

Capital Spending

Capital expenditures in 2000 totalled $33.5 million, as compared to $28.1 million in 1999. Approximately $14.0 million was spent on normal maintenance capital, $11.1 million on upgrade and maintenance capital and $8.4 million funded fiscal 2000 revenue enhancing projects. During 2000, capital expenditures exceeded the capital replacement reserve of 4% of total revenues by $13.4 million.

In 2000, Legacy continued with major revenue enhancing projects at Fairmont The Queen Elizabeth and The Fairmont Royal York. At Fairmont The Queen Elizabeth, $6.8 million was spent on extensive refurbishment of the guestrooms and corridors, the addition of a conference centre and the upgrading of Restaurant Montréalais. Legacy expects the guestroom and corridor refurbishment project to be completed by summer 2002. Revenue enhancing expenditures at The Fairmont Royal York of $0.7 million were made to upgrade the Acadian room and lobby bar. These projects will be completed in March 2001 at a total cost of $2.5 million.

Budgeted expenditures for 2001 include $29.4 million for normal maintenance capital, $25.0 million for revenue enhancing projects and $9.0 million for repositioning capital, including normal operating capital for the newly acquired Delta Winnipeg and The Fairmont Winnipeg. It is anticipated that most of the maintenance capital requirements will be funded by the 2001 capital replacement reserves, which typically range from 4% to 5% of gross revenue.

Revenue enhancing projects budgeted for 2001 include the continuation of the guestroom and corridor refurbishment at Fairmont The Queen Elizabeth, a redevelopment of the Library Bar at The Fairmont Royal York, a full service spa at The Fairmont Empress and the addition of 11 new guestrooms in the Mont Carmel tower of Fairmont Le Château Frontenac.

Distribution to Unitholders

Distributable income was $67.3 million in 2000, an increase of $7.5 million, or 12.6%, over 1999. Distributable income is calculated as net income before special charges, plus depreciation and amortization less the capital replacement reserve. Special charges and the capital replacement reserve are determined at the discretion of the Board of Trustees. Distributions in 2000 of $62.1 million, or $0.98 per unit, were 17.8% above 1999 and represented 92.3% of distributable income. Legacy distributed approximately 88.2% and 98.7% of distributable income in 1999 and 1998, respectively.

In 2000, approximately 56.3% of the total distribution is taxable to the recipient. The balance of the distribution is a return of capital thus reducing the adjusted cost base ("ACB") of the unit. The ACB is used in calculating the capital gain or loss on disposition of Legacy units, assuming that the units are held as capital property.

The information in this Annual Report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts based on management's best estimates and careful judgement.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. To augment the internal control system, Legacy maintains a program of internal audits covering significant aspects of the operations and the internal audit department reports its findings and recommendations to management and the Audit Committee of the Board of Trustees.

The Board of Trustees carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of three members, the majority being Independent Trustees. This Committee reviews the consolidated financial statements with management and the independent auditors prior to submission to the Board for approval. It also reviews the recommendations of both the independent and internal auditors for improvements to internal controls as well as the actions of management to implement such recommendations.

William R. Fatt
Vice Chairman and
Chief Executive Officer

M. Jerry Patava
Executive Vice President,
Chief Financial Officer
and Treasurer

auditors' report

To the Unitholders of Legacy Hotels Real Estate Investment Trust

We have audited the consolidated balance sheets of Legacy Hotels Real Estate Investment Trust as at December 31, 2000 and 1999 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario
February 12, 2001

consolidated balance sheets

(In thousands of dollars)	As at December 31, 2000	As at December 31, 1999
Assets		
Current assets		
Cash and cash equivalents	$ 6,376	$ 11,121
Accounts receivable	34,874	26,139
Materials and supplies	4,099	3,939
Prepaid expenses	2,496	2,106
	47,845	43,305
Capital assets (note 4)	1,091,549	1,020,946
Other assets	3,993	1,596
	$ 1,143,387	$ 1,065,847
Liabilities		
Current liabilities		
Bank indebtedness	$ 12,107	$ –
Bank loans (note 5)	109,676	44,782
Accounts payable and accrued liabilities	53,972	48,856
Current portion of long-term debt (note 6)	238	75,211
Other	132	132
	176,125	168,981
Long-term debt (note 6)	332,307	332,550
Other liabilities	2,111	1,343
Future income tax (note 7)	6,330	–
	516,873	502,874
Unitholders' interest		
Unitholders' equity (note 8)	631,058	561,993
Contributed surplus (note 8)	49	–
Retained earnings (deficit)	(4,593)	980
	626,514	562,973
	$ 1,143,387	$ 1,065,847

Commitments and contingencies (note 14)

Approved by the Board of the Trustees

William R. Fatt
Trustee

Bryce W. Douglas
Trustee

consolidated statements of operations and retained earnings (deficit)

(In thousands of dollars except per unit amounts)	For the Year Ended December 31, 2000	For the Year Ended December 31, 1999
Operating revenues		
Room	$ 310,559	$ 272,679
Food and beverage	164,024	144,785
Other	27,148	24,472
	501,731	441,936
Operating expenses	327,195	289,515
Gross operating profit	174,536	152,421
Hotel management fees	22,726	18,118
Property taxes, rent and insurance	30,132	27,467
Operating income from hotel operations before undernoted items	121,678	106,836
Other income (note 3)	1,118	–
Other expenses		
Amortization	24,353	18,596
Advisory fee	4,553	4,261
Other	1,754	1,312
Income before interest expense and income tax expense	92,136	82,667
Interest expense (note 15)	29,072	23,873
Income before income tax expense	63,064	58,794
Income tax expense		
Current	173	100
Future	(44)	–
	129	100
Net income for the year	62,935	58,694
Retained earnings (deficit) as previously stated	980	(4,986)
Effect of change in accounting for income taxes (note 7)	(6,374)	–
Deficit as restated	(5,394)	(4,986)
Distributions in the year	(62,134)	(52,728)
Retained earnings (deficit) – end of year	(4,593)	980
Net income per unit	$ 1.013	$ 0.991
Net income per unit on a fully diluted basis	$ 1.011	$ 0.989

(In thousands of dollars)	For the Year Ended December 31, 2000	For the Year Ended December 31, 1999
Cash provided by (used in)		
Operating Activities		
Net income for the year	$ 62,935	$ 58,694
Items not affecting cash		
Amortization	24,353	18,596
Other	1,155	696
Future income taxes	(44)	–
Changes in non-cash working capital (note 9)	(3,240)	1,925
Cash flow from operations	85,159	79,911
Financing activities		
Net proceeds from equity units	52,936	–
Buy-back of units by the Trust	(1,222)	–
Net proceeds from bank loans	109,676	44,782
Repayment of bank loans	(44,782)	–
Repayment of debentures	(75,000)	–
Mortgage payments	(216)	(192)
Repayment of deferred liabilities	(132)	(144)
Distributions to Unitholders	(62,134)	(52,728)
	(20,874)	(8,282)
Investing activities		
Acquisitions (note 3)	(45,007)	(65,976)
Additions to capital assets	(33,538)	(28,088)
Proceeds from sale of capital assets	60	162
Other assets	(2,652)	(411)
	(81,137)	(94,313)
Decrease in cash balance during the year	(16,852)	(22,684)
Cash balance – beginning of year	11,121	33,805
Cash balance – end of year	$ (5,731)	$ 11,121
Represented by:		
Cash	6,376	4,121
Bank indebtedness	(12,107)	–
Short-term investments	–	7,000
	$ (5,731)	$ 11,121
Supplemental disclosure		
Income taxes paid (note 7)	1,237	183
Interest received	292	3,130
Interest paid	$ 29,009	$ 28,446

(In thousands of dollars except per unit amounts)

1. The Trust

Legacy Hotels Real Estate Investment Trust (the "Trust"), is an unincorporated closed-end real estate investment trust created by a declaration of trust dated as of September 11, 1997, amended and restated as of October 29, 1997 and further amended as of December 4, 2000 (the "Declaration of Trust"). The Trust commenced its operations on November 10, 1997 upon the completion of its initial public offering of 59,244,492 units and a simultaneous offering of Series 1 Debentures. Upon the completion of these offerings, the Trust acquired interests in 11 first class and luxury full service business hotels (the "Initial Hotel Portfolio") from Canadian Pacific Properties Inc. The Trust has since acquired interests in eight additional hotel properties.

The operations of the Trust, including its strategy, investments and management, are subject to the general direction and control of its Trustees, a majority of whom must be independent of the Trust, Canadian Pacific Hotels Real Estate Corporation ("CPHREC"), or any affiliate thereof.

The hotel portfolio consists of 19 hotels located in 13 Canadian cities throughout nine provinces. The majority of the properties are owned by the Trust except for the Delta Calgary, the Delta Halifax, the Delta Barrington, the Delta Beauséjour and the Delta Ottawa Hotel and Suites, in which the Trust holds leasehold interests.

2. Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles in all material respects and reflect the following policies:

Basis of consolidation

The consolidated financial statements include the results of operations of the Trust and its subsidiaries, the hotel holding companies and Legacy Hotels Corporation ("LHC"), all of which are wholly owned by the Trust. All significant inter-company transactions and balances have been eliminated.

Revenue recognition

Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured.

Cash and cash equivalents

Cash equivalents comprise short-term investments that are highly liquid and have initial terms to maturity of three months or less.

Materials and supplies

Materials and supplies are valued at the lower of cost, determined on a first-in, first-out basis and replacement value.

Capital assets

Capital assets are recorded at cost.

The Trust's policy is to capitalize major renewals and replacements. Interest incurred during the renovation period of major renovations to existing facilities costing over $1,000 is capitalized.

Amortization is provided at rates designed to write off the assets over their estimated economic lives except for buildings on leased land which are amortized over the lesser of the term of the lease, including options, and the economic life of the building. The annual rates of amortization are as follows:

Buildings	sinking fund over 30 – 40 years
Furniture, fixtures and equipment	6% – 20% straight line
Leasehold interests	straight-line over term of the leases

The sinking fund method of providing amortization is used for buildings. This method will amortize the cost of the buildings over a maximum period of 40 years in a series of annual installments increasing at the rate of 5% compounded annually.

The cost of circulating operating equipment such as linen, china, glassware and silver is capitalized and then amortized over a period of 36 months. Replacements are expensed when placed in service.

Deferred incentive management fees

Deferred incentive management fees are accrued and charged against income when the fees are payable or it is likely that they will become payable in a future year.

Maintenance and repairs

Maintenance and repairs and minor renewals and replacements are charged against income when incurred.

Debt discount and other issue expenses

Debt discount and other issue expenses are included as other assets and are amortized over the term of the respective debt issues.

Income taxes

The Trust is taxed as a mutual fund trust for income tax purposes. Pursuant to the Declaration of Trust, all of the taxable income earned directly by the Trust in the period is distributable to Unitholders of the Trust and such distributions are deducted for income tax purposes. Consequently, no provision for income taxes, or the adoption of the liability method of accounting for income taxes is required for the Trust. Income tax expense reflects large corporation taxes of the Trust's subsidiary corporation.

Effective January 1, 2000, LHC adopted the liability method for providing for income taxes retroactively without restating prior years. Under this method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized.

LHC is subject to tax on its taxable income at an effective tax rate of approximately 44% (1999 – 44%).

Derivatives

The Trust uses derivative products to hedge its exposure to interest rate movements when anticipated financing transactions are probable and the significant characteristics and expected terms are identified. Any gain or loss as a result of the hedging is deferred and amortized as an adjustment to interest expense over the life of the hedged financing instrument. If at any point in time a hedging transaction no longer meets the criteria of a hedge, any gain or loss is recognized in current earnings.

Unit Option Plan

The Trust has a unit-based compensation plan, which is described in note 8. Compensation expense is not recognized when unit options are granted under the Plan. Any consideration paid on exercise of unit options or purchase of units is credited to Unitholders' equity.

Net income per unit

Net income per unit is calculated using the weighted average number of units outstanding during the year. The dilutive effect on net income per unit resulting from the options outstanding under the Unit Option Plan (NOTE 8) is calculated using the treasury stock method.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the reported period. Actual results could differ from those estimates.

Segmented information

Management views operations of the hotels held by the Trust as one operating segment. As a result, the consolidated financial statements are presented as one reportable segment with revenues disclosed separately for rooms, food and beverage and other. Other consists primarily of incidentals.

3. ACQUISITIONS

The Trust completed the following acquisitions in 2000:

On June 26, 2000, the Trust acquired the Delta Winnipeg, formerly the Crowne Plaza. The Trust also acquired The Fairmont Winnipeg, formerly The Lombard, effective September 29, 2000, which closed out of escrow on November 19, 2000.

The purchase price has been allocated to each acquisition as follows:

	Delta Winnipeg	The Fairmont Winnipeg	Total
Working capital	$ 303	$ 626	$ 929
Land	4,133	4,706	8,839
Buildings	24,816	24,261	49,077
Furniture, fixtures and equipment	1,605	1,957	3,562
	$ 30,857	$ 31,550	$ 62,407

The Delta Winnipeg was purchased with cash while The Fairmont Winnipeg was purchased for $14,150 in cash and the issuance of 1,986,301 units (NOTE 8).

The Trust entered into an asset management agreement with the vendor of The Fairmont Winnipeg on June 30, 2000. Under this agreement, the Trust was entitled to a fee based on the net income from The Fairmont Winnipeg less interest on the cash portion of the purchase price and the amount of any distributions on units for the period June 30 to November 19, the date when the acquisition received regulatory approval. During this period, the Trust earned $1,118 in fees.

The Trust completed the following acquisitions in 1999:

On July 3, 1999, the Trust acquired the leasehold interest in the Delta Barrington located in Halifax, Nova Scotia from Delta Hotels Limited ("Delta"), a subsidiary of Canadian Pacific Hotels & Resorts Inc. ("CPH&R"). The Trust also completed the acquisition of the Delta Toronto East and the Four Points Hotel Toronto Airport on September 30, 1999. These hotels were acquired from CPHREC as a result of the Trust exercising its option as provided by the Hotel Properties Agreement.

The purchase price, which was paid in cash, was allocated to each acquisition as follows:

	Delta Barrington	Delta Toronto East	Four Points Hotel Toronto Airport	Total
Working capital	$ –	$ (59)	$ (815)	$ (874)
Land	–	1,979	1,066	3,045
Buildings	–	28,652	13,615	42,267
Furniture, fixtures and equipment	562	11,076	5,900	17,538
Leasehold interests	4,000	–	–	4,000
	$ 4,562	$ 41,648	$ 19,766	$ 65,976

4. Capital assets

			2000	1999
	Cost	Accumulated amortization	Net	Net
Land	$ 107,025	$ –	$ 107,025	$ 98,169
Buildings	886,025	23,083	862,942	808,376
Furniture, fixtures and equipment	134,755	32,381	102,374	95,656
Leasehold interests	21,847	2,639	19,208	18,745
	$ 1,149,652	$ 58,103	$ 1,091,549	$ 1,020,946

5. Bank loans

LHC has a $30 million revolving operating credit facility designed to provide financing for the operations and the Trust has a $100 million revolving acquisition credit facility designed to provide financing on a short-term or long-term basis for acquisitions and other capital investments. These credit facilities are unsecured and are subject to financial covenants with respect to the incurrence of long-term debt. As at December 31, 2000, no amounts were drawn under the facilities.

Additionally, the Trust arranged a $125 million term loan, which is repayable within 365 days of the date of first advance. As at December 31, 2000, the Trust has approximately $15 million available under this term loan.

The components of the balance are as follows:

	2000	1999
Term loan	$ 109,676	$ –
Operating credit facility	–	44,782
	$ 109,676	$ 44,782

6. Long-term debt

The components of the balance are as follows:

	2000	1999
5.53%, Series 1A debentures, matured November 15, 2000	$ –	$ 75,000
5.93%, Series 1B debentures, due November 15, 2002	100,000	100,000
6.34%, Series 1C debentures, due November 15, 2004	75,000	75,000
7.08%, Series 1D debentures, due June 2, 2008	50,000	50,000
6.30%, Series 2A debentures, due December 15, 2003	50,000	50,000
6.65%, Series 2B debentures, due December 15, 2005	50,000	50,000
11.00%, Mortgage payable, due March 10, 2010	7,545	7,761
	332,545	407,761
Less: Current portion of long-term debt	238	75,211
	$ 332,307	$ 332,550

Debentures

The unsecured Series 1 and Series 2 debentures bear a weighted average annual interest rate of 6.32% and 6.48%, respectively. Interest is payable semi-annually in arrears.

The Series 1B and Series 2A debentures are not redeemable prior to maturity. The Series 1C, Series 1D and Series 2B debentures may be redeemable, in whole or in part, at any time, at the option of the Trust, at a redemption price equal to the greater of par and the price of the debentures to yield the appropriate Government of Canada bond rate plus accrued and unpaid interest.

The debentures are direct senior unsecured obligations of the Trust and rank pari passu with each other and with each series of the outstanding debentures and, subject to statutory preferred exceptions, all other present and future unsecured and unsubordinated indebtedness of the Trust.

New issues of long-term debt are subject to restrictions as to debt ratio and interest coverage as defined in the Trust Indenture. The Trust Indenture also imposes certain restrictions on the Trust and its subsidiaries relating to the ability to incur debt, pledge assets as security and make distributions other than normal distributions. All such conditions were met during 2000 and 1999.

In addition to these covenants, the Declaration of Trust provides that the Trust shall not incur or assume any indebtedness if, after giving effect to the incurrence or assumption of such indebtedness, the total indebtedness of the Trust on a consolidated basis would exceed 50% of the Asset Base. The Declaration of Trust also provides that, at no time shall indebtedness (other than trade payables, accrued expenses and distributions payable) aggregating more than 15% of the Asset Base, be at floating interest rates or have maturities of less than one year, not including that portion of long-term debt falling due in the next 12 months.

Mortgage payable

The mortgage payable is secured by the assets of Delta Centre-Ville. Interest is compounded semi-annually and payable monthly.

7. Income taxes

Effective January 1, 2000, LHC adopted, retroactively without restating prior years, the recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes as described in note 2. Previously, the deferral method, which is based on differences in the timing of reporting income and expenses in financial statement and tax returns, was used.

The effect of the new recommendations was to increase the future income tax liability and decrease opening retained earnings by $6,374.

During 2000, LHC paid $1,068 in income taxes that are fully refundable in 2001.

8. Unitholders' equity

	2000	$	1999	$
Balance – beginning of year	59,244,492	561,993	59,244,492	561,993
Units issued during the year	8,386,301	70,336	–	–
Units repurchased during the year	(133,900)	(1,271)	–	–
Balance – end of year	**67,496,893**	**631,058**	59,244,492	561,993

During the year, the Trust purchased 133,900 units for cancellation for $1,106 pursuant to a normal course issuer bid. Of this amount, $1,271 was charged to Unitholders' equity and the difference, net of costs associated with the repurchase, was reflected as contributed surplus. The normal course issuer bid expired in December 2000.

On August 10, 2000, the Trust issued 6,400,000 units at $8.60 per unit, of which CPH&R acquired 2,900,000 units.

On September 29, 2000, the Trust issued 1,986,301 units at $8.76 per unit as part of the consideration to acquire The Fairmont Winnipeg.

Each unit represents a Unitholder's proportionate undivided beneficial interest in the Trust and confers the right to one vote at any meeting of Unitholders and to participate pro rata in any distributions by the Trust and, in the event of termination of the Trust, in the net assets of the Trust remaining after satisfaction of all liabilities.

As at December 31, 2000, pursuant to the Unit Option Plan, there were 4,797,224 (1999 – 4,307,224) options to acquire units outstanding. These options expire ten years after granting, from November 7, 2007 to December 14, 2010. Certain options vest at the rate of 50% after the first two years and the balance one year thereafter. The remainder vest when certain performance targets are met. The maximum number of units reserved for issuance under the Unit Option Plan is 5,924,449.

In December 1999, the Board of Trustees resolved to grant to CPHREC 2,962,224 units, being 50% of the units available for issuance under the Unit Option Plan. These units were deemed issued and vested as of November 10, 1997 and have an exercise price of $9.80 per unit.

	2000		1999	
	Units	Weighted-average exercise price	Units	Weighted-average exercise price
Outstanding – beginning of year	4,307,224	$ 9.37	962,500	$ 8.56
Granted	505,000	8.57	3,344,724	9.61
Forfeited	(15,000)	(7.55)	–	–
Outstanding – end of year	4,797,224	$ 9.29	4,307,224	$ 9.37
Exercisable – end of year	**3,564,313**		3,299,724	

Information relating to unit options as at December 31, 2000 was as follows:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Options outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Options exercisable	Weighted-average exercise price
$ 5.65 – $ 6.75	332,500	7.9 years	$ 6.15	156,250	$ 6.11
$ 8.00 – $ 8.90	897,500	9.4 years	8.44	22,500	8.73
$ 9.80 – $ 9.95	3,567,224	6.9 years	9.80	3,385,563	9.80
	4,797,224	7.4 years	$ 9.29	3,564,313	$ 9.63

9. Changes in Working Capital

Details of changes in working capital are:

	2000	1999
Increase in accounts receivable	$ (7,360)	$ (3,231)
Decrease (increase) in materials and supplies	52	(174)
Decrease in prepaid expenses	232	1,118
Increase in accounts payable and accrued liabilities	3,836	4,212
	$ (3,240)	$ 1,925

10. Agreements

Management agreements

The Trust has entered into long-term management agreements with Canadian Pacific Hotels Management Corporation ("CPHMC"), to manage the Initial Hotel Portfolio, with an initial term of 50 years and one renewal period of 25 years, exercisable at the option of CPHMC.

Effective June 14, 1999, Delta assumed management of four of the hotels from the Initial Hotel Portfolio: the Delta Calgary Airport, the Delta Prince Edward, the Delta Halifax and the Delta Beauséjour. Delta provides management services to CPHMC under a management services agreement with respect to these four hotels, as well as the Delta Bessborough Hotel, the Delta Centre-Ville and the Delta Ottawa Hotel and Suites. Delta also provides management services for the Delta Barrington, the Delta Toronto East, the Four Points Hotel Toronto Airport and the Delta Winnipeg under separate management agreements between the Trust and Delta.

On October 1, 1999, CPH&R completed a transaction with the owners of Fairmont Hotel Management L.P. As a result of that transaction, CPH&R owns 67% and the former owners of Fairmont Hotel Management L.P. own 33% of Fairmont Hotels Inc.("Fairmont"). Fairmont provides management services to CPHMC for the remaining seven of the hotels from the Initial Hotel Portfolio and The Fairmont Winnipeg, under a separate management services agreement.

Pursuant to these management agreements, CPHMC and Delta are entitled to a base management fee and an incentive management fee. The base management fee ranges from 2% to 3% of total hotel revenues. For the hotels included in the Initial Hotel Portfolio, the incentive fee is based on both the profitability of each of the hotels and the overall profitability of the Initial Hotel Portfolio. The incentive fee is calculated based on net operating income from hotel operations plus depreciation and amortization less capital replacement reserve, over a threshold amount. In the event that the overall profitability does not exceed that target, the aggregate incentive fees determined on the profitability of each hotel that would otherwise be payable will be deferred. Such deferred incentive fee may become payable in a future year. For the eight hotels acquired subsequent to the Initial Hotel Portfolio, the incentive fee is based on the profitability of each hotel, and is calculated on a basis similar to the incentive fee calculation for the Initial Hotel Portfolio.

Advisory Agreement

The Trust entered into an advisory agreement in November 1997 with CPHMC to provide operation and administrative services to the Trust and to advise the Trustees regarding major decisions. The initial term has been extended to 11 years and will be automatically renewed for additional terms of five years each, subject to the consent of CPHMC and the majority of the independent Trustees. This agreement was assigned to Fairmont in 1999.

CPHMC is entitled to the following fees:

- an advisory fee equal to 0.40% of the asset base as defined;
- an acquisition fee of 0.65% of the total acquisition price of any additional property acquired by the Trust other than purchased from a related party; and
- a disposition fee of 0.25% of the aggregate sale price of any property sold by the Trust, other than to a related party.

Strategic Alliance Agreement

The Trust and CPHREC entered into a Strategic Alliance Agreement in 1997 to co-operate in certain areas related to the purchase and sale of hotels, the development of new hotels that may be considered for investment by the Trust and other areas related to the ownership and management of hotels.

11. Fair value of financial assets and financial liabilities

The fair values of accounts receivable and accounts payable and accrued liabilities and bank loans approximate their carrying values, due to the relatively short periods to maturity of these instruments.

The carrying values and fair market value of the debentures and mortgage are as follows:

	Carrying value	Fair value
Series 1B Debentures	$ 100,000	$ 98,520
Series 1C Debentures	75,000	72,578
Series 1D Debentures	50,000	47,870
Series 2A Debentures	50,000	48,880
Series 2B Debentures	50,000	48,230
Mortgage payable	7,545	8,689

The Trust has determined the estimated fair value of its publicly-traded debt based upon market prices at December 31, 2000. The fair value of other long-term debt is estimated based on rates currently available to the Trust for long-term borrowing with similar terms and conditions.

12. Employee future benefits

Certain employees of LHC belong to defined contribution plans of Fairmont or Delta. Pension costs under these plans generally equal contributions made during the year. Pension expense totalled $3,667 (1999- $2,679).

As well, certain employees of LHC participate in various defined benefit plans of CPHREC. These plans are accounted for as defined contribution plans in that employer contributions would be expensed as incurred. Contributions under these plans are not significant.

13. Related party transactions

Payments to CPHMC, Delta and Fairmont during the year were as follows:

	2000	1999
Management fees	$ 22,726	$ 18,118
Advisory fees	4,553	4,261
Acquisition fees	382	–
	$ 27,661	$ 22,379

CPHMC and Delta provide central reservations, sales and marketing, central purchasing, accounting, management information, employee training and other services for which CPHMC and Delta are reimbursed on a cost recovery basis in accordance with management agreements amounting to $17,013 (1999 – $15,602).

Included in accounts payable is $7,728 owing to Fairmont and Delta.

14. Commitments and contingencies

Minimum rentals for operating leases are as follows:

2001	$ 10,011
2002	9,501
2003	9,500
2004	8,696
2005	7,919
Thereafter	35,577
	$ 81,204

Certain land and building leases are subject to additional rent based on a percentage of operating revenues.

In accordance with hotel management agreements, the managers are entitled to withhold 4% (1999 – between 3% and 4%) of annual operating revenues as a capital replacement reserve to finance ongoing capital expenditures at the properties. This amount is deducted from net income to determine the amount of distributable income.

Contractual commitments in respect of certain 2000 capital projects totalled $17,379 at December 31, 2000 (1999 – $5,977).

The Trust has issued two letters of guarantee totalling $3,780 to potential third party lenders. These amounts represent deposits for the completion of mortgage financings. The deposits were reduced to $2,220 in February 2001. The balance will be returned upon the completion of certain post-closing documents relating to the financings.

15. Interest expense

	2000	1999
Interest on debentures	$ 24,314	$ 24,848
Mortgage interest	824	846
Bank loans and other	4,226	1,309
	29,364	27,003
Less: Interest income	292	3,130
	$ 29,072	$ 23,873

16. Distributable income

Distributable income has been calculated in accordance with the terms of the Declaration of Trust as follows:

	2000	1999
Net income	$ 62,935	$ 58,694
Add (deduct):		
Amortization	24,353	18,596
Income tax expense	129	100
Capital replacement reserve	(20,069)	(17,591)
	$ 67,348	$ 59,799
Distributable income per unit	**$ 1.084**	$ 1.009
Distributable income per unit on a fully diluted basis	**$ 1.082**	$ 1.008
Distribution per unit	**$ 0.980**	$ 0.890

Distributions of $62,134 were paid in 2000 (1999 – $52,728).

17. Bond forwards

In the second quarter, the Trust entered into bond forwards which have been extended to February 20, 2001. As at December 31, 2000, the fair value liability of the bond forwards was approximately $5,064.

18. Reclassification

Certain prior year's figures have been reclassified to conform to the presentation adopted for 2000.

19. Subsequent event

On December 4, 2000, the Unitholders approved the purchase of The Fairmont Empress located in Victoria, British Columbia and Fairmont Le Château Frontenac located in Quebec City, Quebec for an aggregate purchase price of approximately $305 million plus approximately $9 million in closing costs. Both hotels were owned by CPHREC. The transaction closed on February 1, 2001. The purchase price included 14.7 million exchangeable shares of a subsidiary corporation at a price of $8.60 per share for $126.4 million and the balance of the purchase was satisfied by a note. In February 2001, this note was repaid from the net proceeds of secured, non-recourse loans to the subsidiary corporation from third party lenders.

Forward-Looking Information

This Annual Report contains certain forward-looking statements relating, but not limited to, the Trust's operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes.

Readers are cautioned not to place undue reliance on forward-looking information because it is possible that predictions, forecasts, projections and other forms of forward-looking information will not be achieved by the Trust. By its nature, the Trust's forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: changes in business strategies; general global economic and business conditions; the effects of competition and pricing pressures; industry overcapacity; shifts in market demands; changes in laws and regulations, including environmental and regulatory laws; potential increases in maintenance and operating costs; uncertainties of litigation; labour disputes; timing of completion of capital or maintenance projects; currency and interest rate fluctuations; various events which could disrupt operations; and technological changes.

The Trust undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise, or the foregoing list of factors affecting such information.

investor information

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Toronto Stock Exchange
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Director Investor Relations
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French Reports
La version française de ce rapport sera envoyée sur demande.

Annual Meeting
Tuesday, April 24, 2001
9:00 a.m. E.S.T.
The Fairmont Royal York
100 Front Street West
Toronto, Ontario

Website
Visit our website at www.legacyhotels.ca

Distribution Reinvestment Plan
Unitholders may acquire units through reinvesting cash distributions without paying brokerage commissions or administrative charges.

For general information concerning the Distribution Reinvestment Plan or for change of address, please contact the transfer agent and registrar.

Transfer Agent and Registrar
Computershare Trust Company of Canada
129 Saint-Jacques Street, "B" Level North
Montreal, Quebec H2Y 1L6
1-800-332-0095 or 514-877-2584

trustees

senior officers

Richard A. Goldstein
Chairman

William R. Fatt
Vice Chairman and
Chief Executive Officer

Neil J. Labatte
President and Chief Operating Officer

Chris J. Cahill
Executive Vice President

M. Jerry Patava
Executive Vice President,
Chief Financial Officer and Treasurer

Terence P. Badour
Secretary

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